

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Spring Arbor Township	County Jackson
Fiscal Year End March 31, 2006	Opinion Date June 22, 2006	Date Audit Report Submitted to State September 29, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

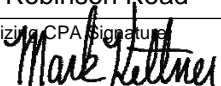
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Mark T. Kettner, CPA, CGFM		License Number 11673



Jackson County, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
March 31, 2006**



REHMANN ROBSON

Certified Public Accountants

SPRING ARBOR TOWNSHIP

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REHMANN ROBSON

Certified Public Accountants

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INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

June 22, 2006

Board of Trustees
Township of Spring Arbor
Spring Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of ***Spring Arbor Township, Michigan***, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Spring Arbor Township, Michigan, as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund and each major special revenue fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Township has elected not to present Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Spring Arbor Township's basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Spring Arbor Township
Statement of Net Assets
March 31, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 278,835	\$ 194,778	\$ 473,613
Investments	502,034	1,393,368	1,895,402
Receivables, net	110,956	394,431	505,387
Capital assets not being depreciated	431,846	39,098	470,944
Capital assets being depreciated, net	2,444,076	5,306,928	7,751,004
	<hr/>	<hr/>	<hr/>
Total assets	3,767,747	7,328,603	11,096,350
	<hr/>	<hr/>	<hr/>
Liabilities			
Accounts payable and accrued expenses	669	45,230	45,899
Long-term liabilities:			
Due in one year	3,115	-	3,115
Due in more than one year	53,789	480,000	533,789
	<hr/>	<hr/>	<hr/>
Total liabilities	57,573	525,230	582,803
	<hr/>	<hr/>	<hr/>
Net assets			
Invested in capital assets, net of related debt	2,819,018	4,866,026	7,685,044
Restricted for:			
System replacement and improvements	-	1,225,842	1,225,842
Nonexpendable endowment	29,454	-	29,454
Other purposes	460,978	-	460,978
Unrestricted	400,724	711,505	1,112,229
	<hr/>	<hr/>	<hr/>
Total net assets	\$ 3,710,174	\$ 6,803,373	\$ 10,513,547
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

Spring Arbor Township
Statement of Activities
For the Year Ended March 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 36,924	\$ -	\$ -	\$ -	\$ (36,924)
General government	464,351	186,300	102,909	-	(175,142)
Public safety	476,118	1,160	9,886	-	(465,072)
Public works	90,568	21,689	14,837	-	(54,042)
Recreation and culture	65,626	5,350	613	-	(59,663)
Interest on long-term debt	2,384	-	-	-	(2,384)
Total governmental activities	<u>1,135,971</u>	<u>214,499</u>	<u>128,245</u>	<u>-</u>	<u>(793,227)</u>
Business-type activities:					
Sewer	672,250	436,063	622,659	-	386,472
Water	285,725	694,549	228,694	-	637,518
Total business-type activities	<u>957,975</u>	<u>1,130,612</u>	<u>851,353</u>	<u>-</u>	<u>1,023,990</u>
 Total primary government	 <u>\$ 2,093,946</u>	 <u>\$ 1,345,111</u>	 <u>\$ 979,598</u>	 <u>\$ -</u>	 <u>230,763</u>

continued...

Spring Arbor Township
Statement of Activities (Concluded)
For the Year Ended March 31, 2006

Functions/Programs	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (793,227)	\$ 1,023,990	\$ 230,763
General revenues:			
Property taxes	368,271	-	368,271
State shared revenue	529,593	-	529,593
Unrestricted investment earnings	6,899	-	6,899
Contributions to permanent funds	1,500	-	1,500
Total general revenues and contributions	906,263	-	906,263
Change in net assets	113,036	1,023,990	1,137,026
Net assets, beginning of year	3,597,138	5,779,383	9,376,521
Net assets, end of year	\$ 3,710,174	\$ 6,803,373	\$ 10,513,547

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**Spring Arbor Township
Balance Sheet
Governmental Funds
March 31, 2006**

	General	Fire Millage	Building Inspection Department	Total Nonmajor Governmental Funds	Total
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 228,450	\$ 33,218	\$ -	\$ 17,167	\$ 278,835
Investments	75,005	367,710	-	59,319	502,034
Interfund receivable	3,300	-	-	-	3,300
Taxes receivable	11,424	10,561	-	-	21,985
Special assessments receivable	-	-	-	2,580	2,580
Due from other governments	86,378	-	-	-	86,378
Interest receivable	13	-	-	-	13
<hr/>					
<u>TOTAL ASSETS</u>	\$ 404,570	\$ 411,489	\$ -	\$ 79,066	\$ 895,125
<hr/>					
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Interfund payable	\$ -	\$ -	\$ 3,300	\$ -	\$ 3,300
Accounts payable	546	123	-	-	669
<hr/>					
Total liabilities	546	123	3,300	-	3,969
<hr/>					
Fund balances (deficits)					
Unreserved, undesignated	404,024	411,366	(3,300)	-	812,090
Unreserved, undesignated - reported in nonmajor:					
Special revenue funds	-	-	-	49,612	49,612
Permanent fund	-	-	-	29,454	29,454
<hr/>					
Total fund balances (deficits)	404,024	411,366	(3,300)	79,066	891,156
<hr/>					
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 404,570	\$ 411,489	\$ -	\$ 79,066	\$ 895,125
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The accompanying notes are an integral part of these financial statements.

Spring Arbor Township
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
March 31, 2006

Fund balances - total governmental funds	\$ 891,156
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	4,515,407
Deduct: accumulated depreciation	(1,639,485)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: installment purchase contract payable	<u>(56,904)</u>
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Net assets of governmental activities	<u><u>\$ 3,710,174</u></u>
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The accompanying notes are an integral part of these financial statements.

Spring Arbor Township
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended March 31, 2006

	General	Fire Millage	Building Inspection Department	Total Nonmajor Governmental Funds	Total
Revenue					
Taxes	\$ 153,247	\$ 176,656	\$ -	\$ -	\$ 329,903
Special assessments	-	-	-	38,368	38,368
Licenses and permits	1,847	-	62,931	-	64,778
State shared revenue	529,593	-	-	-	529,593
Reimbursements	-	5,838	-	-	5,838
Contributions	1,865	-	-	9,883	11,748
Interest and other revenue	259,789	1,933	-	7,057	268,779
Total revenue	946,341	184,427	62,931	55,308	1,249,007
Expenditures					
Current:					
Legislative	32,284	-	-	-	32,284
General government	322,727	-	-	-	322,727
Public safety	190,839	225,541	113,418	-	529,798
Public works	759	-	-	36,938	37,697
Recreation and culture	54,045	-	-	3	54,048
Debt service:					
Principal	-	-	-	2,996	2,996
Interest	-	-	-	2,384	2,384
Capital outlay	-	18,106	-	73,904	92,010
Total expenditures	600,654	243,647	113,418	116,225	1,073,944
Revenue over (under) expenditures	345,687	(59,220)	(50,487)	(60,917)	175,063
Other financing sources (uses)					
Transfers in	-	217,678	-	21,974	239,652
Transfers (out)	(239,652)	-	-	-	(239,652)
Total other financing sources (uses)	(239,652)	217,678	-	21,974	-
Net change in fund balances	106,035	158,458	(50,487)	(38,943)	175,063
Fund balances, beginning of year	297,989	252,908	47,187	118,009	716,093
Fund balances (deficits), end of year	\$ 404,024	\$ 411,366	\$ (3,300)	\$ 79,066	\$ 891,156

The accompanying notes are an integral part of these financial statements.

Spring Arbor Township
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended March 31, 2006

Net change in fund balances - total governmental funds	\$ 175,063
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	85,012
Deduct: depreciation expense	(146,942)
Deduct: loss on disposal of capital assets	(3,093)

Long-term debt proceeds provide current financial resources to governmental funds in the period issued, but issuing long-term debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	<u>2,996</u>
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Change in net assets of governmental activities	<u><u>\$ 113,036</u></u>
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The accompanying notes are an integral part of these financial statements.

Spring Arbor Township
Statement of Revenue, Expenditures, and Changes
in Fund Balance - Amended Budget and Actual
General Fund
For the Year Ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenue				
Taxes:				
Current property taxes	\$ 154,000	\$ 154,000	\$ 141,727	\$ (12,273)
Delinquent property taxes	8,000	8,000	11,424	3,424
Unpaid personal property taxes	200	200	96	(104)
Total taxes	<u>162,200</u>	<u>162,200</u>	<u>153,247</u>	<u>(8,953)</u>
Licenses and permits:				
Business licenses	250	250	320	70
Trailer permits	1,600	1,600	1,527	(73)
Total licenses and permits	<u>1,850</u>	<u>1,850</u>	<u>1,847</u>	<u>(3)</u>
State shared revenue:				
M-60 Task Force grant	2,000	2,000	988	(1,012)
Liquor licenses	800	800	483	(317)
Sales tax	525,000	525,000	528,122	3,122
Total state shared revenue	<u>527,800</u>	<u>527,800</u>	<u>529,593</u>	<u>1,793</u>
Contributions	<u>-</u>	<u>-</u>	<u>1,865</u>	<u>1,865</u>
Interest and other revenue:				
Service fees	16,000	16,000	12,989	(3,011)
Tax collection service fees	62,000	62,000	65,824	3,824
Rental fees	300	300	200	(100)
Land division fees	1,200	1,200	1,160	(40)
Administrative charges:				
Sewer	14,500	14,500	15,627	1,127
Water	8,000	8,000	5,872	(2,128)
Building cost allocations	-	23,924	42,777	18,853
Private road maintenance	200	200	190	(10)
Cemetery foundations	4,000	4,000	6,035	2,035
Grave openings	12,500	12,500	11,170	(1,330)
Cemetery lot sales	5,000	5,000	3,700	(1,300)
Park user fees	200	200	125	(75)
Senior Center user fees	5,000	5,000	5,225	225
Parking fines	200	200	110	(90)
Fines and forfeits	10,000	10,000	10,694	694
Property rental	10,800	10,800	10,800	-
Cable TV royalties	45,000	45,000	48,732	3,732
Reimbursements	8,000	8,000	7,828	(172)
Interest and other revenue	6,000	6,000	10,731	4,731
Total other revenue	<u>208,900</u>	<u>232,824</u>	<u>259,789</u>	<u>26,965</u>
Total revenue	<u>900,750</u>	<u>924,674</u>	<u>946,341</u>	<u>21,667</u>

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Spring Arbor Township
Statement of Revenue, Expenditures, and Changes
in Fund Balance - Amended Budget and Actual (Concluded)
General Fund
For the Year Ended March 31, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Expenditures				
Legislative	\$ 39,650	\$ 43,650	\$ 32,284	\$ (11,366)
General Government:				
Township Supervisor	62,347	63,147	62,285	(862)
Elections	1,800	1,800	947	(853)
Assessor	41,675	60,925	51,066	(9,859)
Township Clerk	62,994	63,844	60,837	(3,007)
General Office	18,100	19,600	16,990	(2,610)
Board of Review	1,800	2,150	2,035	(115)
Treasurer	60,944	61,544	59,431	(2,113)
Township Hall	13,600	14,850	13,352	(1,498)
Post Office	19,975	13,975	13,955	(20)
Maintenance Building	2,150	2,950	2,536	(414)
Township Property	13,050	14,150	12,932	(1,218)
Cemetery	35,850	32,700	26,361	(6,339)
Total general government	<u>334,286</u>	<u>351,636</u>	<u>322,727</u>	<u>(28,909)</u>
Public Safety:				
Police	179,859	183,759	172,359	(11,400)
Communications	1,070	1,070	111	(959)
Planning Commission	58,375	33,875	17,617	(16,258)
Zoning Board of Appeals	1,100	1,100	452	(648)
Township Street Lights	300	300	300	-
Total public safety	<u>240,704</u>	<u>220,104</u>	<u>190,839</u>	<u>(29,265)</u>
Public Works:				
Streets and Roads	650	650	580	(70)
Private Streets and Roads	200	400	179	(221)
Total public works	<u>850</u>	<u>1,050</u>	<u>759</u>	<u>(291)</u>
Recreational and Cultural:				
Gallagher Park	27,787	28,787	28,492	(295)
Historical Committee	1,500	1,500	1,500	-
Senior Center	26,350	26,350	24,053	(2,297)
Total recreational and cultural	<u>55,637</u>	<u>56,637</u>	<u>54,045</u>	<u>(2,592)</u>
Total expenditures	<u>671,127</u>	<u>673,077</u>	<u>600,654</u>	<u>(72,423)</u>
Revenue over expenditures	229,623	251,597	345,687	94,090
Other financing uses				
Transfers out	<u>(219,178)</u>	<u>(241,152)</u>	<u>(239,652)</u>	<u>1,500</u>
Net change in fund balances	10,445	10,445	106,035	95,590
Fund balance, beginning of year	<u>297,989</u>	<u>297,989</u>	<u>297,989</u>	<u>-</u>
Fund balance, end of year	<u>\$ 308,434</u>	<u>\$ 308,434</u>	<u>\$ 404,024</u>	<u>\$ 95,590</u>

The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township
Statement of Revenue, Expenditures,
and Changes in Fund Balance - Amended Budget and Actual
Fire Millage Special Revenue Fund
For the Year Ended March 31, 2006**

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenue				
Property taxes	\$ 191,100	\$ 191,100	\$ 176,656	\$ (14,444)
Reimbursements	-	5,838	5,838	-
Interest revenue	200	200	1,933	1,733
Total revenue	191,300	197,138	184,427	(12,711)
Expenditures				
Public safety	269,338	275,176	225,541	(49,635)
Capital outlay	15,519	15,519	18,106	2,587
Total expenditures	284,857	290,695	243,647	(47,048)
Revenue (under) expenditures	(93,557)	(93,557)	(59,220)	34,337
Other financing sources				
Transfers in	217,678	217,678	217,678	-
Net change in fund balance	124,121	124,121	158,458	34,337
Fund balance, beginning of year	252,908	252,908	252,908	-
Fund balance, end of year	<u>\$ 377,029</u>	<u>\$ 377,029</u>	<u>\$ 411,366</u>	<u>\$ 34,337</u>

The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township
Statement of Revenue, Expenditures,
and Changes in Fund Balance - Amended Budget and Actual
Building Inspection Department Special Revenue Fund
For the Year Ended March 31, 2006**

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenue				
Permit revenue	\$ 76,800	\$ 76,800	\$ 62,931	\$ (13,869)
Expenditures				
General government	88,350	119,127	113,418	(5,709)
Revenue (under) expenditures	(11,550)	(42,327)	(50,487)	(8,160)
Fund balance, beginning of year	47,187	47,187	47,187	-
Fund balance (deficit), end of year	<u><u>\$ 35,637</u></u>	<u><u>\$ 4,860</u></u>	<u><u>\$ (3,300)</u></u>	<u><u>\$ (8,160)</u></u>

The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township
Statement of Net Assets
Enterprise Funds
March 31, 2006**

	Sewer Fund	Water Fund	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 49,973	\$ 144,805	\$ 194,778
Investments	-	167,526	167,526
Receivables:			
Special assessments	-	370,331	370,331
User fees	12,015	3,695	15,710
Interest	891	-	891
Delinquent user and connection fees	5,139	1,760	6,899
Total current assets	68,018	688,117	756,135
Noncurrent assets:			
Restricted investments:			
Replacement account	679,244	-	679,244
Improvement account	546,598	-	546,598
Accounts receivable - connection fees	-	600	600
Capital assets, net	2,859,768	2,486,258	5,346,026
Total noncurrent assets	4,085,610	2,486,858	6,572,468
Total assets	4,153,628	3,174,975	7,328,603
Liabilities			
Current liabilities:			
Accounts payable	45,230	-	45,230
Long-term debt			
Bonds payable - net of current portion	-	480,000	480,000
Total liabilities	45,230	480,000	525,230
Net assets			
Invested in capital assets, net of related debt	2,859,768	2,006,258	4,866,026
Restricted for replacement and improvements	1,225,842	-	1,225,842
Unrestricted	22,788	688,717	711,505
Total net assets	\$ 4,108,398	\$ 2,694,975	\$ 6,803,373

The accompanying notes are an integral part of these financial statements.

Spring Arbor Township
Statement of Revenue, Expenses and
Changes in Net Assets
Enterprise Funds
For the Year Ended March 31, 2006

	Sewer Fund	Water Fund	Totals
Operating revenue			
Special assessments	\$ -	\$ 479,629	\$ 479,629
Connection fees	40,500	67,615	108,115
User fees	395,563	144,588	540,151
Penalties	9,375	2,717	12,092
Other	1,896	-	1,896
Total operating revenue	447,334	694,549	1,141,883
Operating expenses			
Administrative fees	12,288	5,163	17,451
Pension	1,115	-	1,115
Office expenses	3,161	51	3,212
Professional services	6,914	10,436	17,350
Insurance and bonds	10,575	1,973	12,548
Utilities	47,115	91	47,206
Water usage	-	128,594	128,594
Treatment charges	248,416	-	248,416
Maintenance	158,677	321	158,998
Depreciation	183,064	71,112	254,176
Other	903	59,528	60,431
Total operating expenses	672,228	277,269	949,497
Operating income (loss)	(224,894)	417,280	192,386
Non-operating revenue (expense)			
Interest revenue	47,298	15,671	62,969
Interest expense	(22)	(8,456)	(8,478)
Total non-operating revenue	47,276	7,215	54,491
Net income (loss) before capital contributions	(177,618)	424,495	246,877
Capital contributions	564,090	213,023	777,113
Change in net assets	386,472	637,518	1,023,990
Net assets, beginning of year	3,721,926	2,057,457	5,779,383
Net assets, end of year	\$ 4,108,398	\$ 2,694,975	\$ 6,803,373

The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township
Statement of Cash Flows
Enterprise Funds
For the Year Ended March 31, 2006**

	Sewer Fund	Water Fund	Totals
Cash flows from operating activities			
Cash received from customers	\$ 445,008	\$ 323,271	\$ 768,279
Cash payments to suppliers for goods and services	(489,372)	(206,357)	(695,729)
Net cash provided (used) by operating activities	(44,364)	116,914	72,550
Cash flows from capital and related financing activities			
Purchase of capital assets	(37,126)	-	(37,126)
Cash flows from investing activities			
Interest received on investments	47,276	7,215	54,491
Purchase of investments	-	(7,526)	(7,526)
Net cash provided (used) by investing activities	47,276	(311)	46,965
Net increase (decrease) in cash and cash equivalents	(34,214)	116,603	82,389
Cash and cash equivalents, beginning of year	84,187	28,202	112,389
Cash and cash equivalents, end of year	\$ 49,973	\$ 144,805	\$ 194,778

continued...

Non-cash transactions

During the year, the Township received donated sewer and water lines from contractors in the amount of \$564,090 and \$213,023, respectively. These transactions did not involve cash.

Also, the Township had additions to the wastewater disposal system of \$480,000 through the issuance of County Water Supply bonds.

Spring Arbor Township
Statement of Cash Flows
Enterprise Funds (Concluded)
For the Year Ended March 31, 2006

	Sewer Fund	Water Fund	Totals
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (224,894)	\$ 417,280	\$ 192,386
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	183,064	71,112	254,176
Changes in assets and liabilities:			
Receivables	(2,326)	(371,278)	(373,604)
Accounts payable	(208)	(200)	(408)
Net cash provided (used) by operating activities	\$ (44,364)	\$ 116,914	\$ 72,550

The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township
Statement of Fiduciary Net Assets
Tax Collection Agency Fund
March 31, 2006**

ASSETS

Assets

Cash and cash equivalents

\$ 18

LIABILITIES

Liabilities

Due to other governments

\$ 18

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

SPRING ARBOR TOWNSHIP, MICHIGAN

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Spring Arbor Township (the “government” or “Township”) is a municipal corporation governed by an elected supervisor and a six-member board. The Township has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of reporting entity and has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the respective fund financial statements.

SPRING ARBOR TOWNSHIP, MICHIGAN

Notes To Financial Statements

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *fire millage special revenue fund* accounts for the collection of property taxes and expenditures related to the extra voted fire millage.

The *building inspection special revenue fund* accounts for resources collected and used to pay for building inspection activities.

SPRING ARBOR TOWNSHIP, MICHIGAN

Notes To Financial Statements

The government reports the following major proprietary funds:

The *sewer enterprise fund* accounts for the activities of the government's sewage disposal and treatment system.

The *water enterprise fund* accounts for the activities of the government's water distribution and treatment system.

Additionally, the government reports the following fund type:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including capital projects or permanent funds.

Permanent funds. These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specified government programs.

The *agency fund* accounts for assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer enterprise fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

SPRING ARBOR TOWNSHIP, MICHIGAN

Notes To Financial Statements

D. Assets, liabilities and net assets/equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), if any, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$100 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

SPRING ARBOR TOWNSHIP, MICHIGAN

Notes To Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
System infrastructure	30-50
Vehicles	3-30
Equipment	5-15

4. Compensated absences

Annually, the Township grants one week of paid vacation after six months of employment, two weeks after one year employment, three weeks after five years employment, and four weeks after ten years employment. Employees are entitled to one sick day per month, cumulative to fifteen days. Vacation and sick days cannot be carried over and, therefore, are not accrued in the accompanying financial statements.

5. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

6. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

SPRING ARBOR TOWNSHIP, MICHIGAN

Notes To Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted at the functional level for all governmental fund types each fiscal year on a basis consistent with generally accepted accounting principles. The government's final budget must be prepared and adopted prior to April 1st of each year.

Reported budgeted amounts are as originally adopted or as amended by the Township Board. The legal level of budgetary control is the activity level.

The government does not utilize encumbrance accounting.

B. Excess of expenditures over appropriations

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended March 31, 2006, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Fire Millage Special Revenue Fund -			
Capital outlay	\$ 15,519	\$ 18,106	\$ 2,587

C. Deficit fund balance

The following fund reported an accumulated deficit in fund balance as of March 31, 2006:

Special Revenue Fund -	Accumulated
Building Inspection Department	<u>Deficit</u>
	\$ 3,300

This deficit will be eliminated by increasing building permit prices.

SPRING ARBOR TOWNSHIP, MICHIGAN

Notes To Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

Statement of Net Assets:

Cash and Cash equivalents	\$ 473,613
Investments	<u>1,895,402</u>
	<u>\$ 2,369,015</u>

Classification of Deposit and Investments:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 1,273,013
Investments	1,095,402
Cash on hand	<u>600</u>
	<u>\$ 2,369,015</u>

Investments

The Township chooses to disclose its investments by specifically identifying each. As of year end, the Township had the following investments:

<u>Investment</u>	<u>Maturing</u>	<u>Fair Value</u>	<u>Rating</u>
Governmental Cash Management Fund	n/a	\$ 1,095,402	n/a

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. The Township had no investments that required credit risk ratings at year end.

SPRING ARBOR TOWNSHIP, MICHIGAN

Notes To Financial Statements

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township’s deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$322,555 of the Township’s bank balance of \$1,322,705 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Township does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Township’s investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

Receivables as of year end are as follows:

	General Fund	Fire Millage Special Revenue Fund	Nonmajor Governmental Funds	Sewer Enterprise Fund	Water Enterprise Fund	Total
Taxes receivable	\$ 11,424	\$ -	\$ -	\$ -	\$ -	\$ 11,424
Special assessments receivable	-	10,561	2,580	-	370,331	383,472
Due from other governments	86,378	-	-	-	-	86,378
User fees receivable	-	-	-	12,015	3,695	15,710
Interest receivable	13	-	-	891	-	904
Delinquent user and connection fees	-	-	-	5,139	1,760	6,899
Connection fees receivable	-	-	-	-	600	600
	\$ 97,815	\$ 10,561	\$ 2,580	\$ 18,045	\$ 376,386	\$ 505,387

SPRING ARBOR TOWNSHIP, MICHIGAN

Notes To Financial Statements

C. Capital assets

Capital assets activity for the year ended March 31, 2006, was as follows

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated - land	\$ 431,846	\$ -	\$ -	\$ 431,846
Capital assets being depreciated				
Land improvements	261,752	-	-	261,752
Building and improvements	1,781,445	24,594	-	1,806,039
Furniture and equipment	806,002	60,418	23,200	843,220
Vehicles	1,172,550	-	-	1,172,550
Total capital assets being depreciated	4,021,749	85,012	23,200	4,083,561
Less accumulated depreciation for:				
Land improvements	80,943	8,947	-	89,890
Building and improvements	703,753	36,121	-	739,874
Furniture and equipment	371,177	48,809	20,107	399,879
Vehicles	356,777	53,065	-	409,842
Total accumulated depreciation	1,512,650	146,942	20,107	1,639,485
Total capital assets being depreciated, net	2,509,099	(61,930)	3,093	2,444,076
Governmental activities capital assets, net	\$ 2,940,945	\$ (61,930)	\$ 3,093	\$ 2,875,922

SPRING ARBOR TOWNSHIP, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 39,098	\$ -	\$ -	\$ 39,098
Capital assets being depreciated:				
Sewer plant	5,756,384	564,090	-	6,320,474
Water plant	2,548,933	693,024	-	3,241,957
Equipment	282,185	37,126	-	319,311
	<u>8,587,502</u>	<u>1,294,240</u>	<u>-</u>	<u>9,881,742</u>
Less accumulated depreciation for:				
Sewer plant	3,548,063	160,055	-	3,708,118
Water plant	697,041	71,112	-	768,153
Equipment	75,534	23,009	-	98,543
	<u>4,320,638</u>	<u>254,176</u>	<u>-</u>	<u>4,574,814</u>
Total capital assets being depreciated, net	<u>4,266,864</u>	<u>1,040,064</u>	<u>-</u>	<u>5,306,928</u>
Business-type activities capital assets, net	<u>\$ 4,305,962</u>	<u>\$ 1,040,064</u>	<u>\$ -</u>	<u>\$ 5,346,026</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Legislative	\$ 1,547
General government	52,861
Public safety	75,550
Public works	4,871
Recreation and culture	<u>12,113</u>

Total depreciation expense - governmental activities **\$ 146,942**

Business-type activities:

Sewer	\$ 183,064
Water	<u>71,112</u>

Total depreciation expense – business-type activities **\$ 254,176**

SPRING ARBOR TOWNSHIP, MICHIGAN

Notes To Financial Statements

D. Payables

Payables (all governmental and business-type activities) are 100 percent vendors.

E. Long-term debt

Installment Purchase Agreement. The government used an installment purchase agreement to provide funds in the amount of \$59,900 for the acquisition of Harmony Park. This installment purchase agreement is expected to be repaid from the Public Improvement special revenue fund. Repayment is due in six annual installments of \$5,380 (including interest), with a final balloon payment of \$41,631 in the seventh year.

Annual debt service requirements to maturity for the purchase agreement are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 3,115	\$ 2,265	\$ 5,380
2008	3,239	2,141	5,380
2009	3,368	2,012	5,380
2010	3,502	1,878	5,380
2011	3,642	1,738	5,380
2012	40,038	1,593	41,631
Total	\$ 56,904	\$ 11,627	\$ 68,531

General Obligation Bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for proprietary activities. These bonds are reported in the proprietary funds because they are expected to be repaid from proprietary fund revenues.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Water construction projects	3.50 - 4.75%	<u>\$ 480,000</u>

SPRING ARBOR TOWNSHIP, MICHIGAN

Notes To Financial Statements

The water supply facilities bond payable is equal to the aggregate outstanding principal and interest payments due on the County of Jackson Water Supply Facilities Bonds (Spring Arbor Township Section). Those bonds were issued to finance the construction of the water supply facilities, which was managed and administered by the Jackson County Department of Public Works under contract with the Township. The cost of the of the system is capitalized in the Township's Water Enterprise Fund, which is financing the debt service payments through usage fees and special assessments.

Annual debt service requirements to maturity for general obligation bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	\$ 19,638	\$ 19,638
2008	25,000	19,200	44,200
2009	25,000	18,325	43,325
2010	25,000	17,444	42,444
2011	25,000	16,550	41,550
2012-2016	125,000	68,669	193,669
2017-2021	125,000	43,432	168,432
2022-2025	<u>130,000</u>	<u>15,736</u>	<u>145,736</u>
	<u>\$ 480,000</u>	<u>\$ 218,994</u>	<u>\$ 698,994</u>

Changes in Long-Term Debt. Long-term liability activity for the year ended March 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Primary Government					
Governmental activities:					
Installment purchase agreement	<u>\$ 59,900</u>	<u>\$ -</u>	<u>\$ 2,996</u>	<u>\$ 56,904</u>	<u>\$ 3,115</u>
Business-type activities:					
General obligation bonds	<u>\$ -</u>	<u>\$ 480,000</u>	<u>\$ -</u>	<u>\$ 480,000</u>	<u>\$ -</u>

SPRING ARBOR TOWNSHIP, MICHIGAN

Notes To Financial Statements

F. Interfund transfers

For the year ended March 31, 2006, interfund transfers consisted of the following:

	Transfers Out General Fund
<u>Transfers In</u>	
Fire Millage	\$ 217,678
Public Improvement	<u>21,974</u>
	<u>\$ 239,652</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

IV. OTHER INFORMATION

A. Property taxes

Real and personal property taxes are recorded as revenue in the year for which they are levied, provided they are collectible during that year or within 60 days following that year's end. Property tax revenues shown in the General Fund and Fire Millage Special Revenue Fund reflect the 2005 Township levies of .8817 mills and 1.0320 mills, respectively, on the taxable valuation of property located in the Township as of the preceding December 31. Taxable values are established annually by the County and are equalized by the State at an estimated 50% of current market value or \$170,958,847. The 2005 levy became a lien on properties on December 1, 2005, and was substantially collected in early 2006. Taxes became delinquent on March 1, 2006.

SPRING ARBOR TOWNSHIP, MICHIGAN

Notes To Financial Statements

B. Defined Contribution Pension Plan

The Spring Arbor Township Pension Plan provides pension benefits for all Township Officials and all other employees who work at least twenty hours per week on a regular basis, and who choose to belong to the plan. This benefit is a bank trust type plan administered by a Pension Committee under the provisions of Section 401(a) of the Internal Revenue Code. Plan provisions and contribution requirements are established and may be amended by the Township Board. The plan is held and administered by John Hancock.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's accounts and the returns on the investments of those contributions.

As amended effective April 1, 1986, the Township may, but is not required to, make a "discretionary contribution" for a plan year to the accounts of all eligible participants. The amount of the contribution is based upon participant compensation for the plan year.

There were 9 members in the plan at March 31, 2006. Contributions to the pension fund by the Township were \$25,054, which is 9% of covered payroll.

* * * * *

**COMBINING FUND FINANCIAL
STATEMENTS**

**Spring Arbor Township
Combining Balance Sheet
Nonmajor Governmental Funds
March 31, 2006**

	<u>Special Revenue Funds</u>		<u>Permanent</u>	<u>Total</u>
	<u>Street</u>		<u>Fund</u>	<u>Nonmajor</u>
	<u>Light</u>	<u>Public</u>	<u>Historical</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Improvement</u>	<u>Committee</u>	<u>Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 17,167	\$ -	\$ -	\$ 17,167
Investments	-	29,865	29,454	59,319
Special assessments receivable	2,580	-	-	2,580
<u>TOTAL ASSETS</u>	<u>\$ 19,747</u>	<u>\$ 29,865</u>	<u>\$ 29,454</u>	<u>\$ 79,066</u>
<u>FUND BALANCES</u>				
Reserved for endowment	\$ -	\$ -	\$ 29,454	\$ 29,454
Unreserved, undesignated	19,747	29,865	-	49,612
Total fund balances	19,747	29,865	29,454	79,066
<u>TOTAL FUND BALANCES</u>	<u>\$ 19,747</u>	<u>\$ 29,865</u>	<u>\$ 29,454</u>	<u>\$ 79,066</u>

Spring Arbor Township
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended March 31, 2006

	<u>Special Revenue Funds</u>		<u>Permanent</u>	<u>Total</u>
	<u>Street</u>	<u>Public</u>	<u>Fund</u>	<u>Nonmajor</u>
	<u>Light</u>	<u>Improvement</u>	<u>Historical</u>	<u>Governmental</u>
	<u>Fund</u>		<u>Committee</u>	<u>Funds</u>
Revenue				
Current special assessments	\$ 35,788	\$ -	\$ -	\$ 35,788
Delinquent special assessments	2,580	-	-	2,580
Contributions	-	8,383	1,500	9,883
Interest and other revenue	-	6,454	603	7,057
Total revenue	38,368	14,837	2,103	55,308
Expenditures				
Current:				
Public works	36,938	-	-	36,938
Recreation and culture	-	-	3	3
Debt service:				
Principal	-	2,996	-	2,996
Interest	-	2,384	-	2,384
Capital outlay	-	73,904	-	73,904
Total expenditures	36,938	79,284	3	116,225
Revenue over expenditures	1,430	(64,447)	2,100	(60,917)
Other financing sources				
Transfers in	-	8,500	13,474	21,974
Net change in fund balances	1,430	(55,947)	15,574	(38,943)
Fund balance, beginning of year	18,317	85,812	13,880	118,009
Fund balance, end of year	\$ 19,747	\$ 29,865	\$ 29,454	\$ 79,066



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



June 22, 2006

To the Board of Trustees
Township of Spring Arbor

We have audited the financial statements of Spring Arbor Township for the year ended March 31, 2006, and have issued our report thereon dated June 22, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated June 20, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Spring Arbor Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Spring Arbor Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Spring Arbor Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Spring Arbor Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Spring Arbor Township, either individually or in the aggregate, indicate matters that could have a significant effect on Spring Arbor Township's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Spring Arbor Township' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended for the use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

Township of Spring Arbor
Comments and Recommendations
For the Year Ended March 31, 2006

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated June 22, 2006 on the financial statements of the Township of Spring Arbor.

Township Policies

In connection with our audit, we reviewed the Township's policies and performed various tests and made inquiries to determine that these policies, which were adopted by the Township, were in fact being followed. Through these tests and inquiries we determined that certain written policies were not being followed.

According to the Michigan Department of Treasury, the Township Board must approve all invoices prior to payment, unless addressed otherwise in the charter. The Board may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the Board for approval. It was determined through our audit procedures that the Township did have such a policy in place, however, was not being followed. The approval of invoices is done after they are paid.

Also, it is the written policy of the Township, that bank reconciliations be reviewed and signed by the Township Supervisor. It was determined through our audit that this policy is also not being followed.

We recommend that the Township Board follow their written policies. The policies appear to be sufficient to strengthen internal controls in these areas, however, need to be followed in order for them to be effective.

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Township's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the Township lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

Township of Spring Arbor
Comments and Recommendations
For the Year Ended March 31, 2006

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Township's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Township's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

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